

WHAT EVERY CONSERVATIVE NEEDS TO KNOW ABOUT “POSTAL REFORM” (H.R. 22)

Representatives Mike Pence, Jeb Hensarling, and Jeff Flake

All Carrot, No Stick

The number one problem facing the United States Postal Service (USPS) is a complete inability to control costs. Labor costs consume 80% of USPS' revenue whereas UPS and FedEx spend only 56% and 42% of their revenues on labor. USPS is currently providing its workers roughly \$870 million more in benefits than federal workers receive as a result of lucrative health and life insurance benefits. And a postal worker in Anchorage, Alaska receives the same salary as his counterpart in New York City despite different cost-of-living expenses.

- H.R. 22 contains none of the main collective bargaining proposals offered by the President's Commission to *reduce* USPS' long-term unfunded pension and healthcare liabilities or to bring USPS salaries in line with the private sector.
- H.R. 22 contains none of the reforms offered by the Commission to establish a BRAC-style process to consolidate and shut-down facilities that lose money. Half of all such facilities lose money.
- H.R. 22 includes a cap on postage rate increases that will not work. CBO states that USPS **will** “increase rates...more frequently than under current law, but by smaller increments.” In addition, the cap could be blown if such an increase were “reasonable and equitable and necessary” for the continuation of services. Such a cap hardly equips USPS with the tools to control costs and renegotiate its labor contracts.
- H.R. 22 does include some modest financial transparency reforms, requested by the Administration. These “sunshine” provisions improve current law and begin to give lawmakers the proper tools to appraise USPS' assets.

The Bailout

In 1970, the fundamental principle of postal reform was that USPS would become a self-financed entity, taking on both the system's assets *and its liabilities*. In short, USPS was supposed to pay its way. In 2003, Congress decided that USPS had “overpaid” its Civil Service Retirement System (CSRS) costs, meaning that it *would* overpay its pension obligations at its current contribution rate at a later date. Rather than let USPS spend the money retained from reduced contributions, an escrow account within the U.S. Treasury was established until a further assessment could be made of USPS long-term responsibilities.

- H.R. 22 releases the escrow account for the USPS to pre-fund its substantial health care liabilities that otherwise U.S. taxpayers must pay. This is a sound use of the escrow account funds, but it is not complete. Only 2/3rds of the escrow funds contributes to the health care liabilities, letting the rest flow to USPS.
- H.R. 22 then shifts responsibility for paying the military service credits of USPS employees to the U.S. Treasury at a cost of nearly \$12 billion. While taxpayers typically pick up such costs for federal agencies, USPS is supposed to pay such costs so as to not benefit from an unfair labor subsidy. The issue is not the merits of this subsidy, but rather who should bear its cost. For example, as a self-financed entity, the Patent and Trademark Office now pays for these credits for its employees.
- This burden transforms H.R. 22 from a bill that takes a sound first step toward addressing USPS' long-term liabilities, with few other real reforms, into a bailout of the Postal Service.
- H.R. 22 represents the second bailout in the span of four years. When Congress established the escrow account two years ago, the legislation enacted (P.L. 108-18) cost taxpayers \$7.1 billion in the name of reforms and reducing future rate increases.
- Proponents of H.R. 22 argue that a significant increase in postage costs, through a so-called “stamp tax,” will cause a death spiral with more mailers leaving the system, forcing higher postage rates, and a larger bailout. According to Treasury Department testimony: “The reality is that any additional financial requirements of the Postal Service can be directly attributed to its inability to sufficiently reduce its costs since 2002, which is the date of the last rate increase.” A bailout to stop a bailout is hardly a sound strategy.

Bottom Line

In its present form, H.R. 22 constitutes yet another bailout of the Postal Service without enough reform to represent a good deal for American taxpayers. **Conservatives can do far better by embracing real postal reform.**